

IOWA Department of **REVENUE**

Annual
Report
2010

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FISCAL YEAR 2010

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Individual Income Tax, Corporation Income Tax
Partnership Income Tax, Franchise Income Tax
Sales Tax, Retailer's Use Tax
Consumer's Use Tax, Local Option Taxes
Hotel / Motel Tax, Car Rental Tax
Withholding Tax, Motor Fuel Tax
Cigarette / Tobacco Tax, Inheritance Tax
Fiduciary Tax, Property Tax
Motor Vehicle Use Tax, Drug Stamp Tax
Real Estate Transfer Tax, Moneys & Credits Tax

**Taxes
Established
by Iowa Code**

IOWA Department of REVENUE

December, 2010

The Honorable Chester J. Culver
Governor
State Capitol Building
Des Moines, Iowa 50319

The Honorable Members
Iowa General Assembly
State Capitol Building
Des Moines, Iowa 50319

Dear Governor Culver
And Members of the Iowa General Assembly:

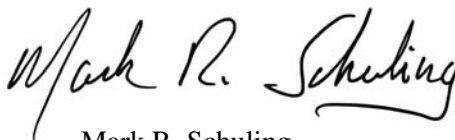
On behalf of the staff of the Iowa Department of Revenue, I am pleased to submit our Fiscal Year 2010 Annual Report. The mission of our Department is "To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more."

In 2010, the Department focused on maintaining taxpayer service while experiencing budget reductions. We recognize our responsibilities to the taxpayers, and service is a priority. Changes are underway to provide more services to Iowans through the Internet and we will continue to make progress and improve on those services. The Department provided answers to more than 1 million Iowa taxpayer contacts in person, by e-mail, by telephone, and through the Web. The Department accomplishes these objectives and its mission by providing taxpayers with current and complete information, and up-to-date technology to support tax filings and payments.

We enter the tax season with reduced staffing levels and limited temporary employees due to budget constraints. We are sorry for the inconvenience and understand the impact on paper return filers.

Our actions will comply with the statutory provisions of the State of Iowa, and our duties under those statutes will be carried out in a fiscally responsible manner. Thank you for this opportunity to serve you and our State.

Yours truly,



Mark R. Schuling
Director

FISCAL YEAR 2010

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IOWA DEPARTMENT OF REVENUE

To be recognized as a Department employing a well-trained work force that in a fair and respectful manner provides responsive and accurate services that enable all customers to comply with Iowa's tax law.

To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more.

- We will create an environment of collaboration and partnership in order to improve voluntary compliance with Iowa's tax system.
- We will safeguard our customers' confidential information.
- We will provide a consistent, fair, and professional program of collection services.
- We will improve our methods of processing tax returns and payments and managing tax revenues so that these transactions will be timely, accurate, and cost effective.
- We will support Department operations by responsibly managing our finances to provide an environment that nurtures our human resources, enhances technology platforms, and continues a strong program of performance measurement and evaluation.
- We will provide education and supervision so that property assessment will be uniform, fair, and equitable, and we will assist local governments by efficiently administering the local option tax programs.
- We will provide expert advice and support to policy-makers and to local and state government entities to promote economic growth in the state and accountability in administration of the state tax system.

Department Administration

Director Mark Schuling
Manager, Examination and Tax Gap Bryce Berg
Administrator, Internal Services Division Roger Stirler
Administrator, Property Tax Division Dale Hyman
Administrator, Revenue Operations Division Stuart Vos
Manager, Tax Policy and Audit Services Victoria Daniels
Administrator, Technology & Information
Management Division Richard Jacobs

Our Vision

Our Mission

Our Goals

SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2010

Electronic Filing of Business Taxes

Withholding: 98.8% of all returns were e-filed through eFile & Pay.

Paper: 4,520

E-filed: 342,099

Sales/Use: 96.1% of all returns were e-filed through eFile & Pay.

Paper: 16,981

E-filed: 389,631

Liquefied Petroleum Gas: 99% of all returns were e-filed through eFile & Pay.

1,138 filers

Motor Fuel: 99% of all returns were e-filed through eFile & Pay.

7,089 filers

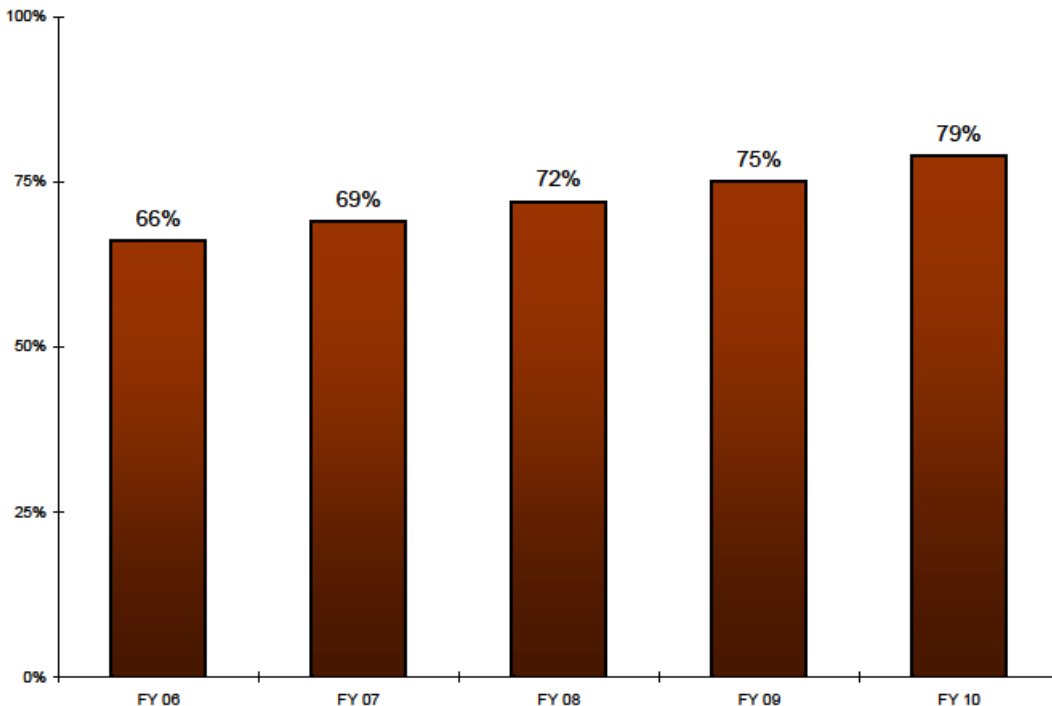
In FY 2010, 97.5% of combined sales and withholding returns were eFiled. eFiling of returns allows for:

- Secure and confidential filing,
- 24/7 filing convenience, and
- Access to filing and payment history.

Electronic Filing of Individual Income Tax

For tax year 2010, 79% of individual income tax returns were filed electronically. 95% of e-filers had their refunds in one to two weeks.

Iowans Choose to eFile Individual Income Tax Returns



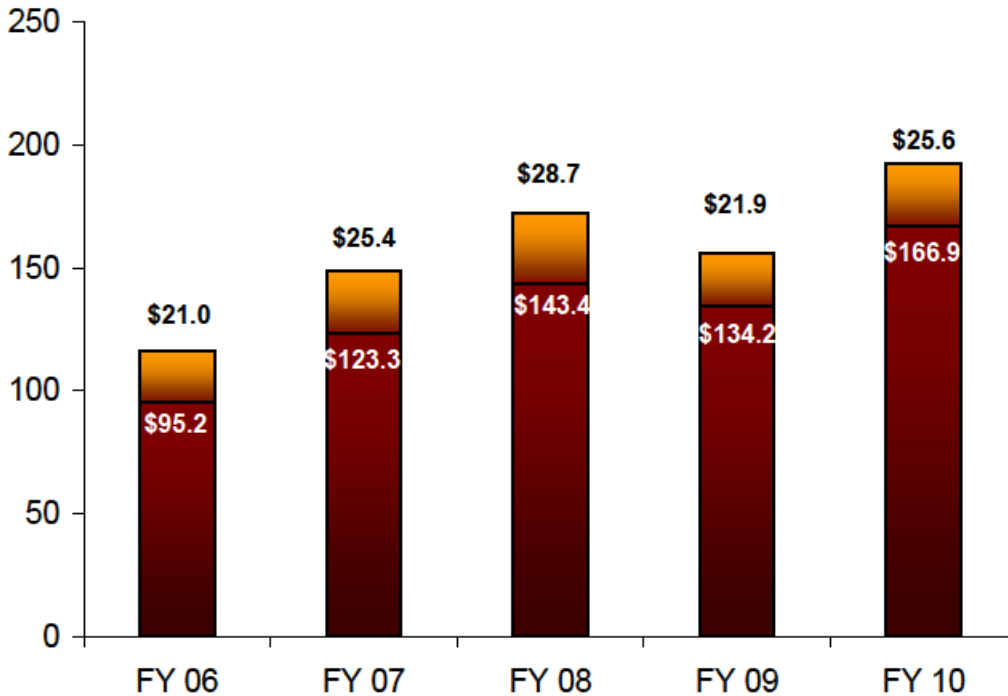
The Department processes more than 1.5 million individual income tax returns. Almost 66% are refund returns.

SIGNIFICANT ACHIEVEMENTS

Collections

Total Collections for FY 10 were \$192.5 million. Tax collections totaled \$166.9 million. Collections for other state agencies totaled \$25.6 million.

Dollars Collected by Collection Enterprise \$ Million

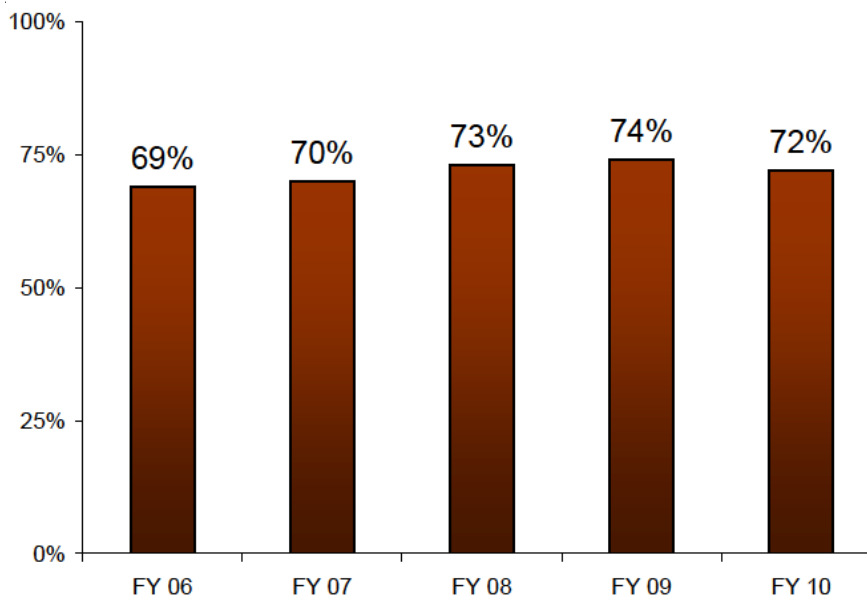


FY08 collections include \$12.4 million generated through the Tax Amnesty Program.

Electronic Payments

The Department received 72% of all deposits electronically.

Tax Dollars ePaid



FISCAL YEAR 2010

Scoring of accounts and modernization of collections systems has improved the Department's ability to collect past due debt.

Electronic payment options include:

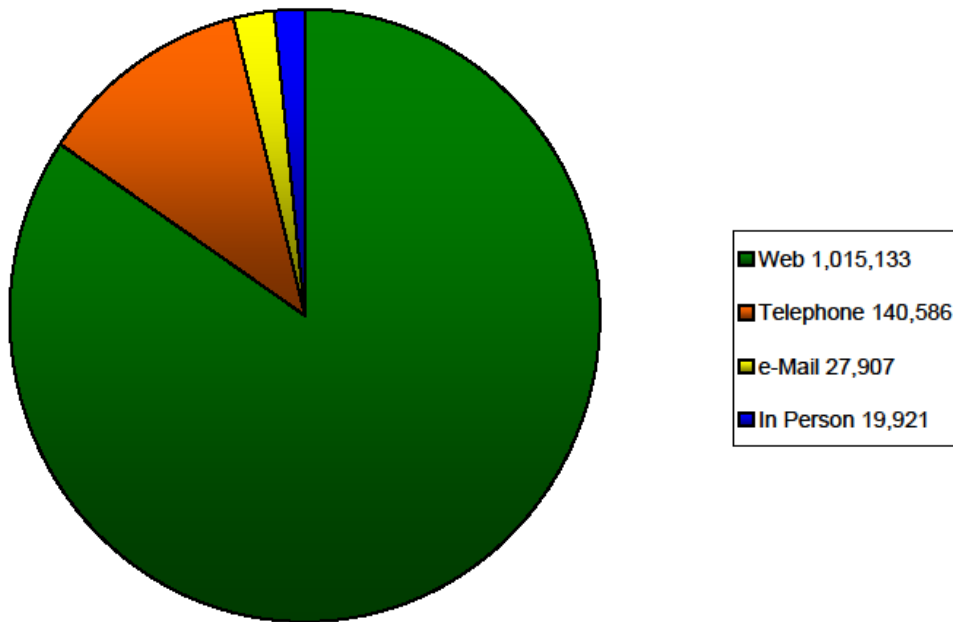
- free direct debit (through eFile & Pay)
- electronic funds transfer
- credit card

SIGNIFICANT ACHIEVEMENTS

Taxpayer Contacts

Iowa taxpayers seek out the Department for answers to their questions and information about taxes. Tax specialists are available by telephone and e-mail; in addition, they teach classes statewide to businesses and tax practitioners. Electronic services are available 24/7.

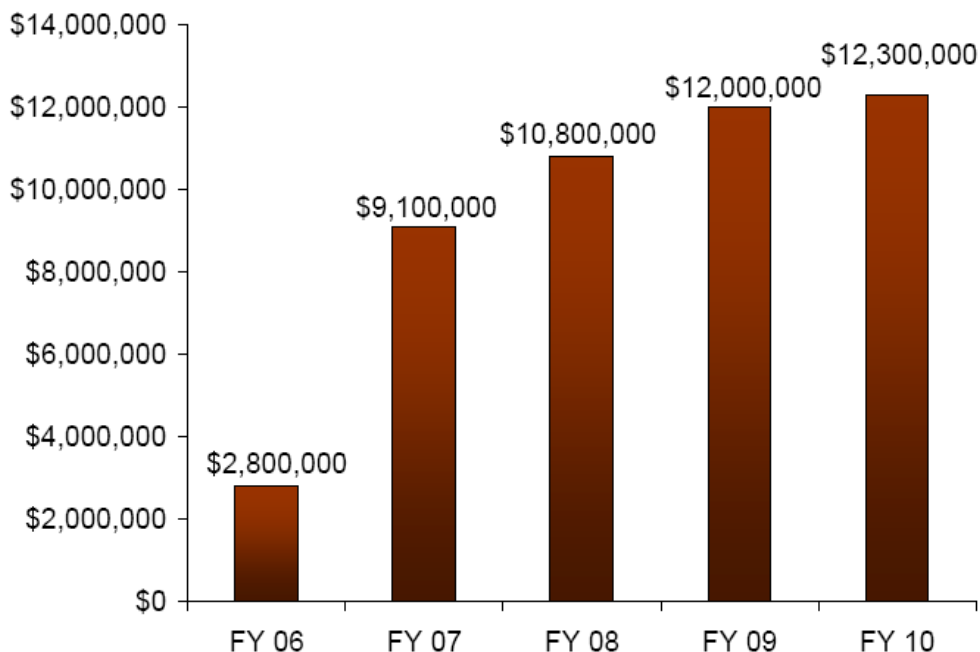
Taxpayer Contacts 1,203,547



Streamlined Sales Tax

Total collections since 2006 are almost \$50.2 million.

Streamlined Sales Tax Collections \$ Million



FISCAL YEAR 2010

Over 1 million visitors access the Department's Web site each year.

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Streamline Sales Tax minimizes the cost and administrative burden on sales tax retailers who sell into multiple states.

SIGNIFICANT ACHIEVEMENTS

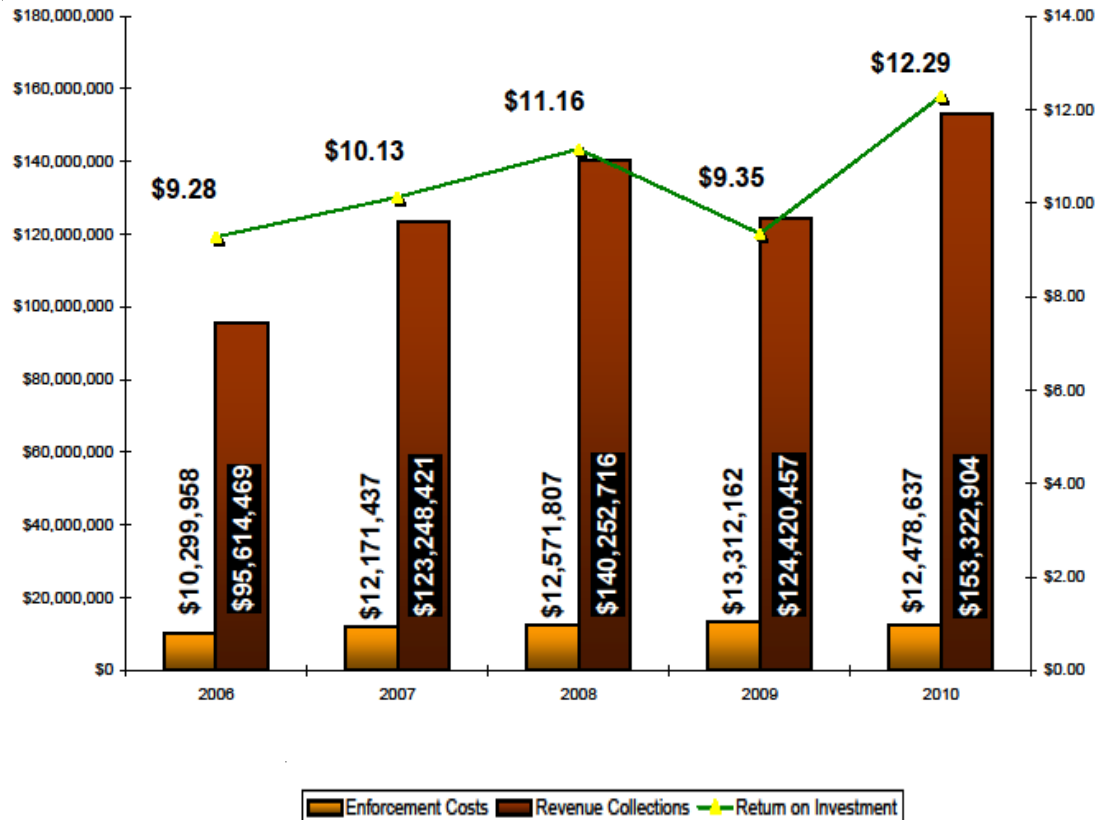
FISCAL YEAR 2010

Return on Investment

Every \$1 invested in audit activities generated more than \$12 in taxes collected. An investment of \$12.4 million in audit activities produced more than \$153 million for the General Fund to finance services to Iowans.

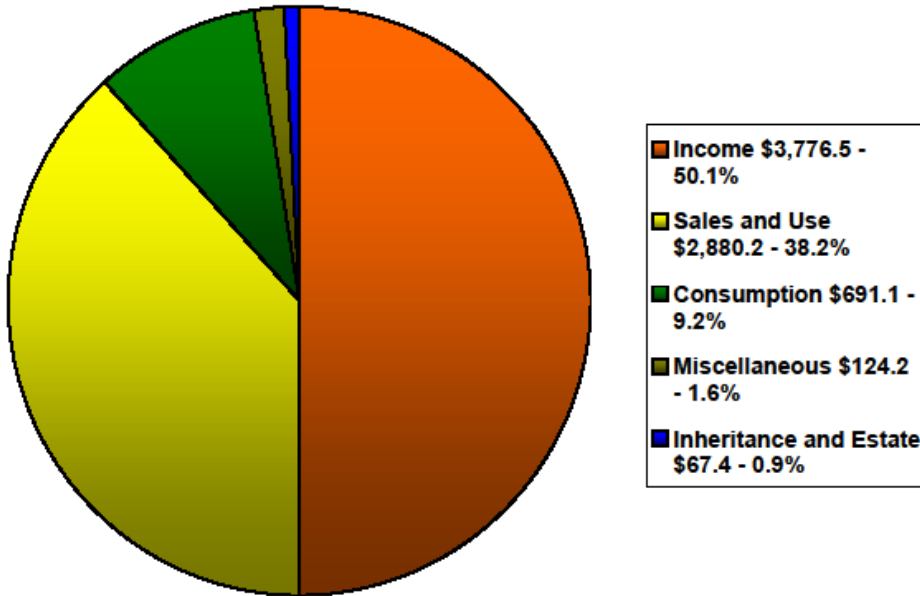
The vast majority of taxpayers file their returns and pay their taxes on time. When taxpayers do not do so, the Department provides a fair, consistent, and professional program of collections services.

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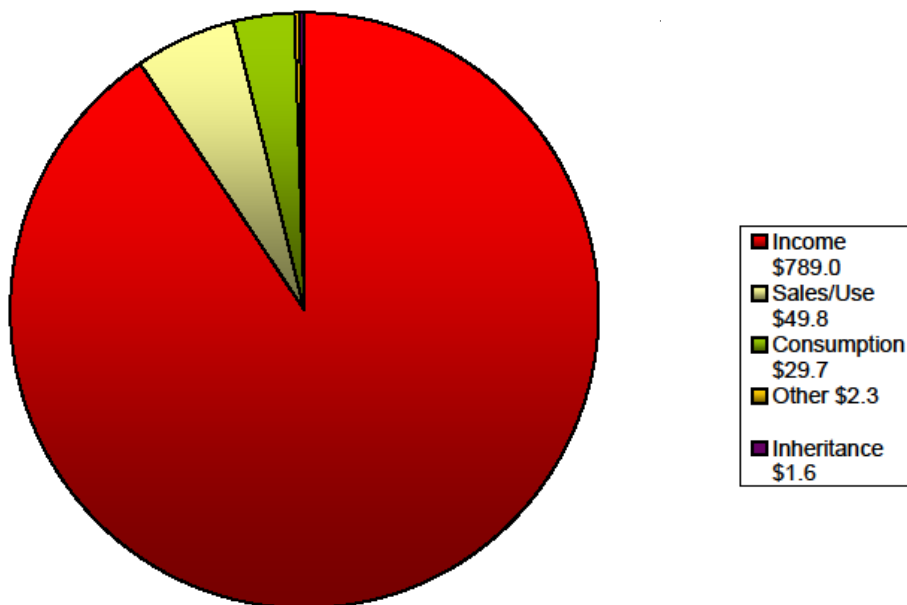


GROSS TAX COLLECTIONS AND REFUNDS

Gross Tax Collections - \$ 7,539.4 Million



Tax Refunds - \$857.2 Million



FISCAL YEAR 2010

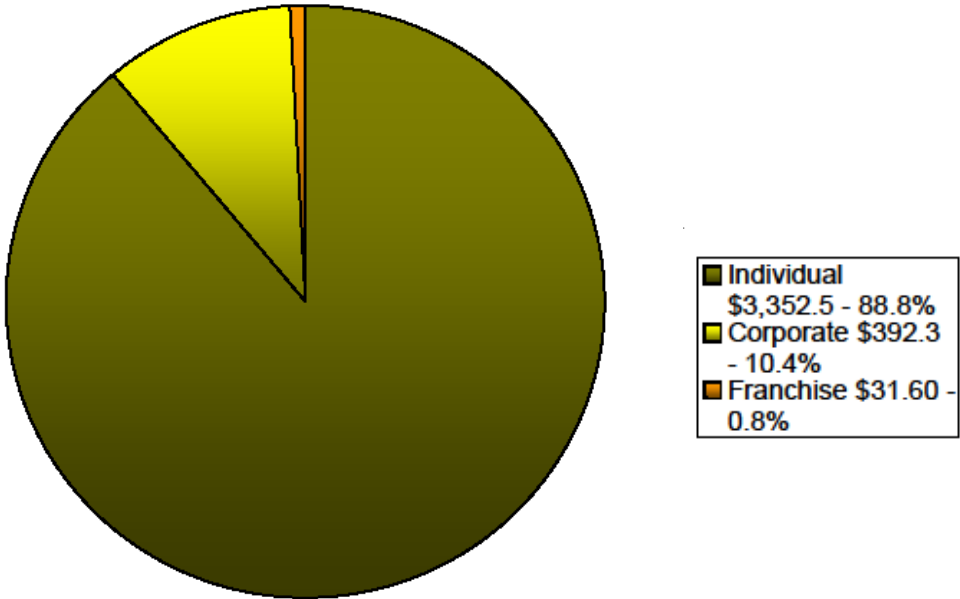
Last year's gross collections were \$7,731 million. Revenue from 21 tax sources is processed by the Department.

91% of all refund dollars issued are for individual income tax. Taxpayers who e-filed their individual income tax returns received their refunds within 14 days.

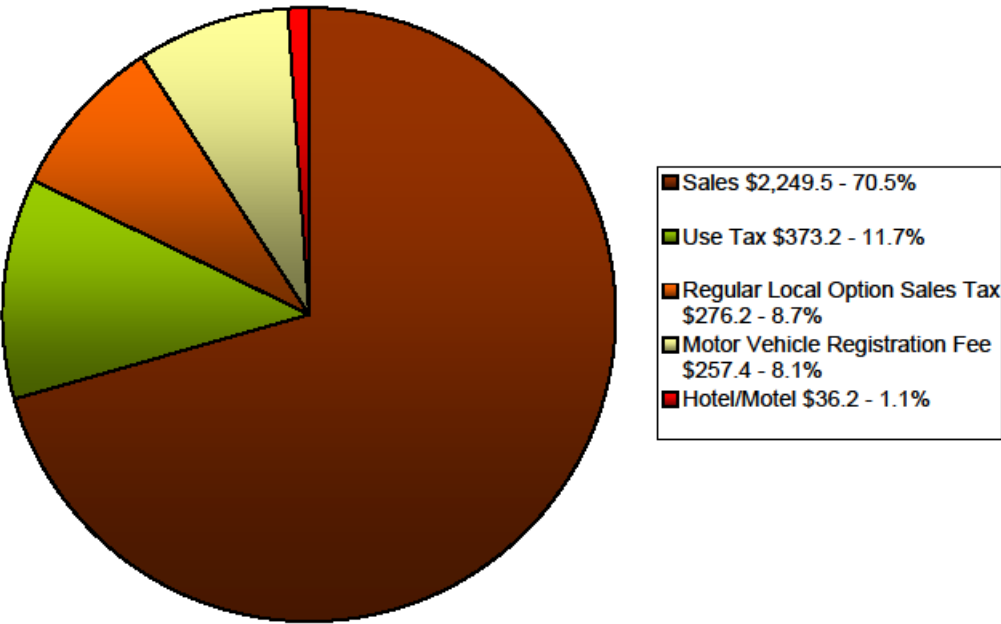
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REVENUE SOURCES

Income Taxes - \$3,776.4 Million



Sales/Use Taxes - \$2,622.7 Million
Total Including Local Option Taxes - \$3,195 Million



FISCAL YEAR 2010

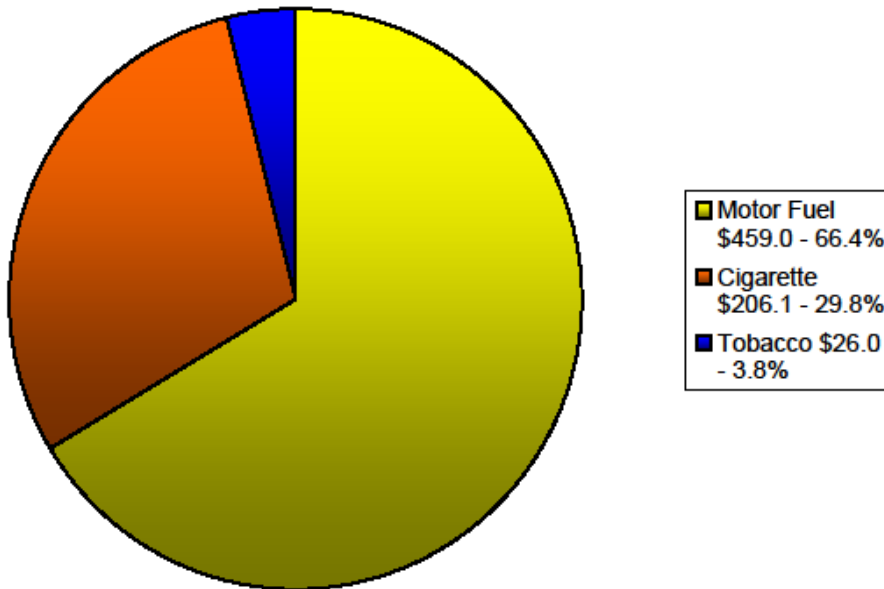
The Department processes more than 3 million documents each year.

The Department distributed \$ 357 million to public school districts through the SAVE initiative.

REVENUE SOURCES

FISCAL YEAR 2010

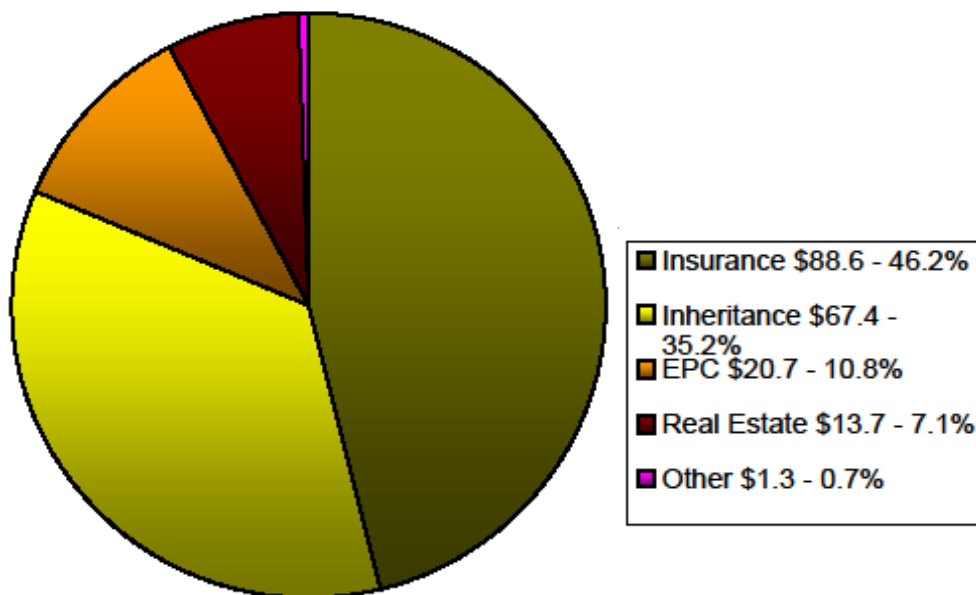
Consumption - \$691.1 Million



Consumption (excise) taxes are sales taxes that apply to a specific class of goods. In Iowa these are cigarette, tobacco, and motor fuel.

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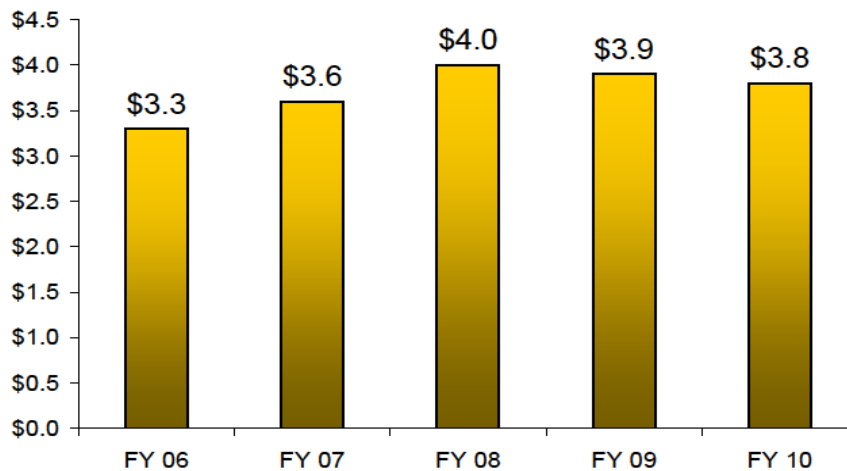
Other \$191.7 Million



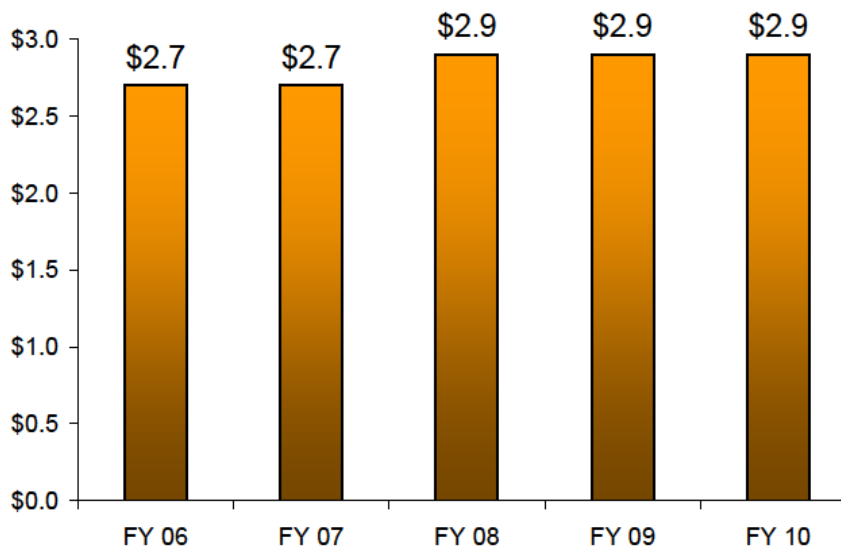
The group of taxes classified as “Other” represents approximately 2.5% of the total taxes collected by the Department.

GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

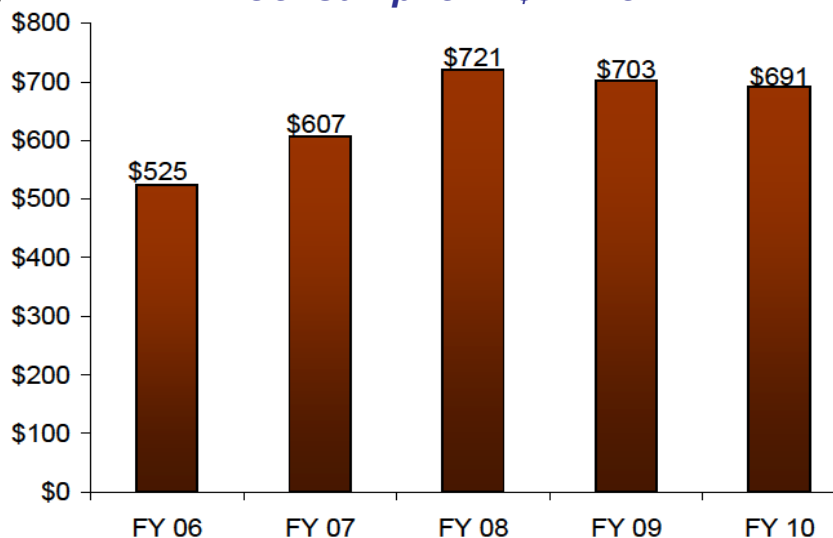
Income - \$ Billion



State Sales/Use - \$ Billion



Consumption - \$ Million



FISCAL YEAR 2010

Income taxes include dollars received on the final return payment and estimated payments for individual, corporation and franchise taxes. They represent 50.1% of the total taxes collected by the Department.

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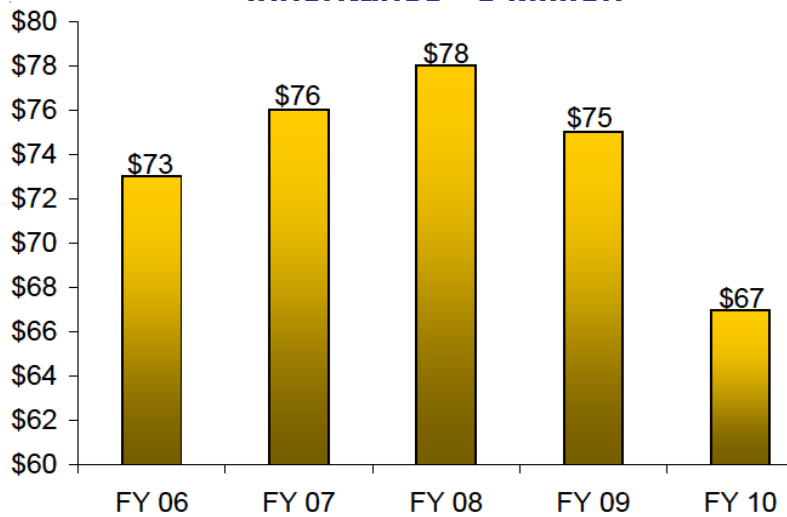
Sales/Use tax represents 38.2% of the taxes collected by the Department.

The first major tax enacted in the State of Iowa was the cigarette tax in 1921. The rate was 2 cents per pack of cigarettes. The rate in FY 2010 was \$1.36 per pack.

GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

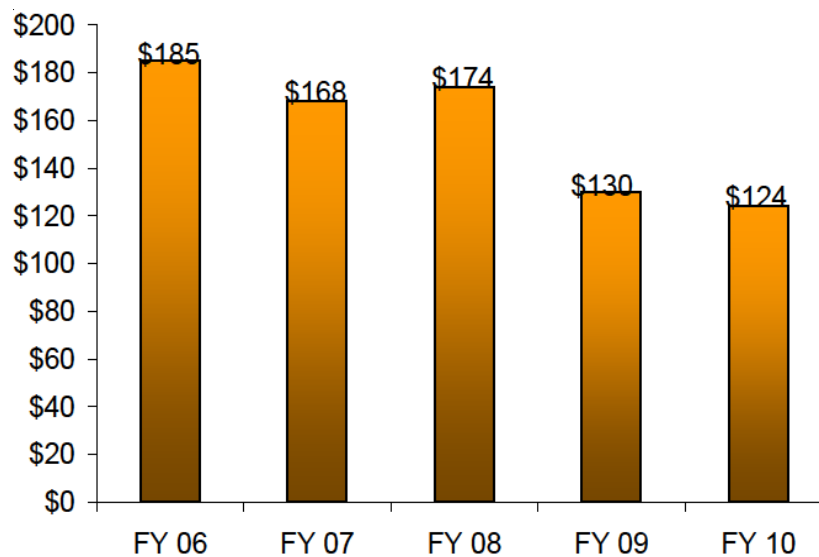
FISCAL YEAR 2010

Inheritance - \$ Million



Lineal ascendants and descendants, including step-children, are exempt from paying Iowa inheritance tax.

Miscellaneous - \$ Million

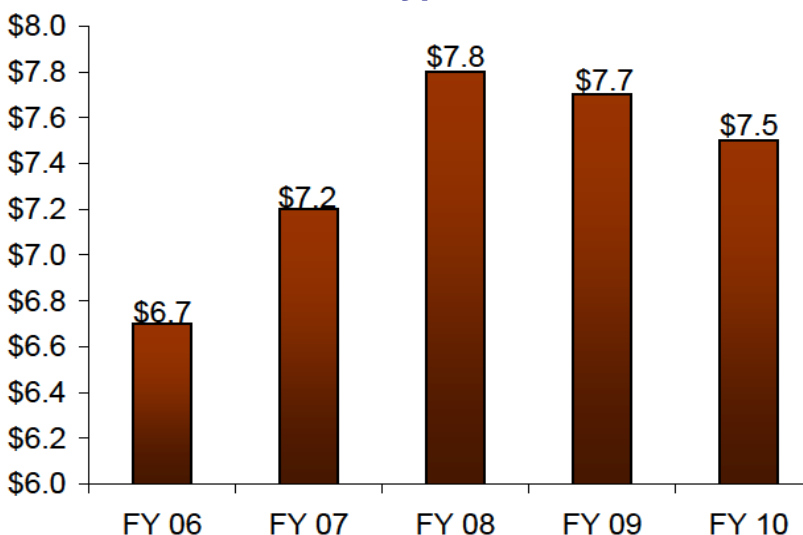


Miscellaneous Taxes include:

- Environmental Protection Charge
- Real Estate Transfer Tax
- Hazardous Materials Permit Fees
- Insurance Premium Tax
- Reimbursements
- Motor Vehicle Title Surcharge
- Other

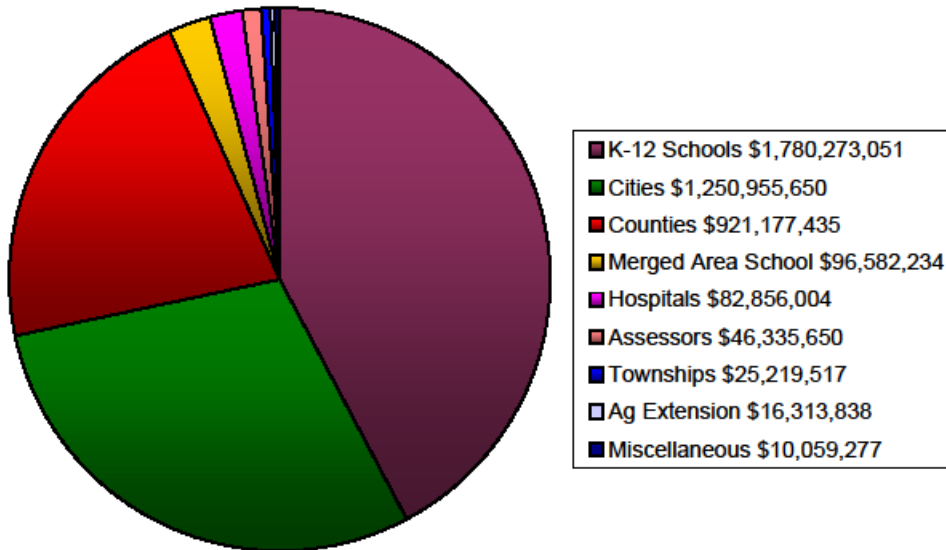
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All Tax Types - \$ Billion

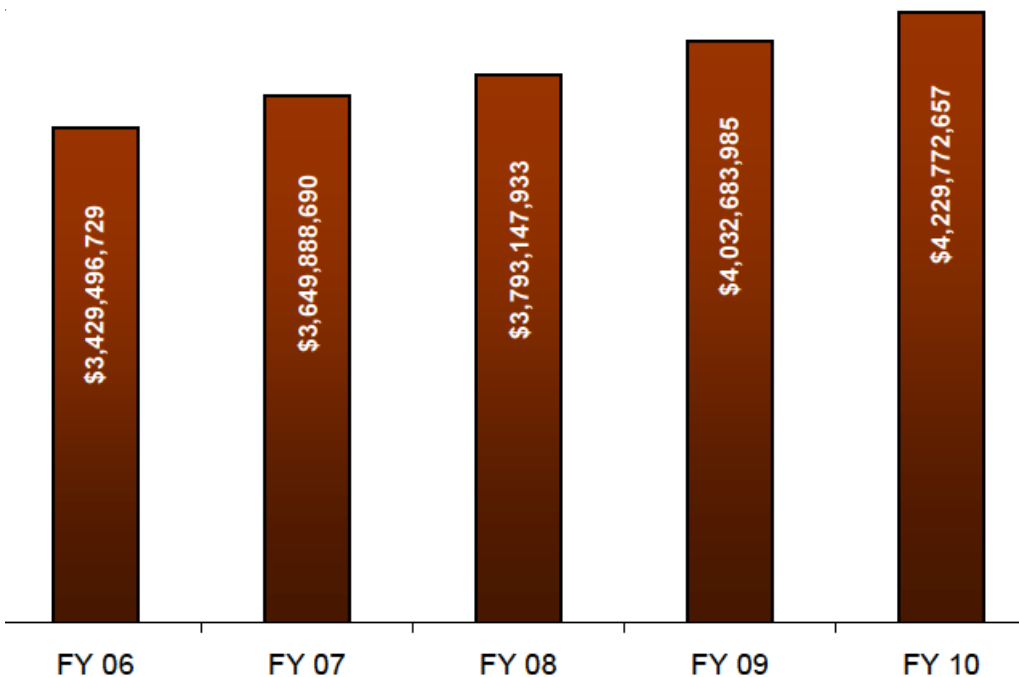


PROPERTY TAX

Property Tax Levied By Type of Taxing Authority



Comparison of Years of Total Property Taxes Levied - \$ Billion



Source: Iowa Department of Management

FISCAL YEAR 2010

The Department:

- administers credits and exemptions to property owners
- educates, certifies, and assists assessors and boards of review
- issues equalization orders every two years
- assesses utility and railroad properties

The Department assesses the excise tax imposed on gas and electric utilities as a replacement for the property tax. The excise tax certified to local assessors in FY10 totaled \$150.8 million.

Tax Gap Program

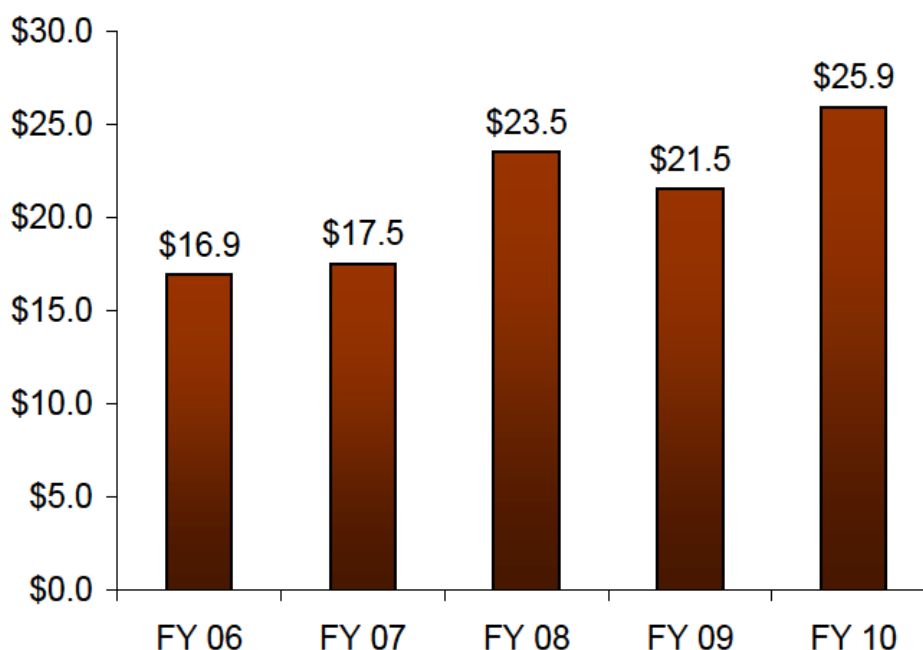
The Tax Gap Program improves tax compliance through advanced use of technology. Tax Gap has four major components: Enterprise Data Warehouse (EDW), Business Intelligence, Web-based Audit Component, and a number of automated interface programs. Additional information on various tax types is continuously added from the processing system.

Using information in the EDW, the Department supplies the Internal Revenue Service (IRS) with an electronic file of state audit results for individual income tax, corporation income tax, sales and use taxes, and withholding tax on a monthly basis. Also, the State Reverse File Matching Initiative compares the state filing history of these taxes to the federal information contained in the EDW to find underreporters and non-filers at the federal level. This file is sent to the IRS on an annual basis. The Department has a strong working relationship with the IRS to share data and work together on various projects.

Enhancements to the Audit Component were completed to improve correspondence with taxpayers, security of information, and the overall functions within the programs. Audit programs were enhanced to reduce the time needed to investigate audit leads and to increase the return on investment.

The Tax Gap Program collected \$25.9 million during FY10. Tax Gap revenues since its initiation in 2000 are \$156.1 million.

Tax Gap



Compliance Report

Enforcement Programs

Fiscal Year 2010 was a successful year; the goals established by the Compliance Division for revenue collected were exceeded. Compliance enforcement programs for Fiscal Year 2010 exceeded \$153.3 million dollars in revenue collected and reductions in refund claims.

- \$ 75.7 million from office exams
- \$ 22.0 million from in-state field audit
- \$ 2.4 million from out-of-state field audit
- \$ 25.9 million from Tax Gap
- \$ 27.2 million from reductions in refund claims

Voluntary Compliance

The Department also focuses on voluntary compliance through taxpayer service and education programs. The Department's Taxpayer Services Section is staffed by tax specialists who work with taxpayers on the telephone and by e-mail. They also conduct tax classes statewide.

The Department attempts to answer telephone calls and respond to e-mails in an efficient manner. The Department provides information through its Web site, electronic mailing lists, and other public methods.

The Department continues to provide electronic filing options and self-help Web site services.

Report on Information System Activity ***Integrated Revenue Information System (IRIS)***

Business operations

Enhancements in efficiency, functionality, and design were made to IRIS to:

- Reflect legislative and other tax year changes.
- Expand interfaces between existing audit programs and IRIS, thereby expediting collection activity.

Security Enhancements

Security enhancements included:

- Increased educational opportunities for agency staff about their responsibilities to protect the integrity and security of Department tax data.
- Continuation of recent efforts to ensure that only data of critical value is retained by the Department.

e Services

Individual Income Tax Returns

More than 79% of individual income tax returns were electronically filed (1.1 million returns). Iowa taxpayers are among the nation's leaders in e-filing.

Business Tax eFile & Pay

Electronic filing of business tax returns continues to be widely accepted. Over 97% of quarterly sales, use, withholding, and motor fuel tax returns were filed using the eFile & Pay system in FY 2010. In addition, business filers paid more than 90% of funds owed to the state electronically.

Individual Income Tax Abatements Calendar 2009

The Director of the Department of Revenue has the authority to abate any portion of tax, interest, or penalties determined to be excessive or erroneously or illegally assessed. Abatements apply to those cases in which the initial protest occurs after the 60-day appeal period has expired and in which the taxpayer produces records substantiating the claim to reduced tax liability.

The table below summarizes the individual income tax abatements allowed in calendar 2009:

Number of Returns:	2,091
Tax:	\$11,677,455.36
Penalty (includes fees):	\$1,342,404.23
Interest:	\$3,732,845.61
Total Amount:	\$16,752,705.20

LEARN MORE ABOUT US

FISCAL YEAR 2010

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Results Iowa

To learn about the Department's goals, strategic and performance plans, and the strategies we use to achieve results, please see our page on the Results Iowa Web site at www.resultsiowa.org/revenue.html

Online Services, Tax Forms and Publications

www.state.ia.us/tax

Additional statistics are online in Publications > Statistical Reports.

- Sales and use quarterly and annual reports
- Local option tax distributions
- Motor fuel monthly reports
- Individual income tax reports

Information about taxes are online in Research.

- Descriptions and rates
- History of tax rates
- Legislative summaries
- Tax credits
- Declaratory orders

Assistance from a tax specialist:

E-mail: idr@iowa.gov

Telephone: 515/281-3114 or 1-800-367-3388

TDD for hearing impaired: 515/242-5942

Mail: **Taxpayer Services**

Iowa Department of Revenue

PO Box 10457

Des Moines, Iowa 50306-0457